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THE Actuary

Implications of the Futurism Section Delphi Survey

by Chandler L. McKelvey and Robert D. Shapiro

During 1989 the SOA Futurism Section completed a Delphi survey consisting of two rounds of questionnaires soliciting input from Futurism Section members. The responses from the 450 participants were summarized and used to develop scenario of the actuarial world in the year 2000.

A "panel discussion" was scheduled for October's Annual Meeting in New York. The format was changed to "open forum" at the opening of the session! We sought input from attendees and structured the presentation to facilitate such a dialogue. This change was necessary, we believed, because the Delphi process tends to build an extrapolated consensus, and we wanted to address potential discontinuities and other variations from the "mean" of the distribution of possible future outcomes.

The year 2000 scenario developed from the Delphi survey suggested:

1. Almost all actuaries will continue to work for insurance companies and consulting firms.
2. The actuarial field will continue to be technical and dependent on technology...in the face of increasing need for actuaries to be more politically aware and management-sensitive.
3. We will be more closely regulated, and more of our work will be mandated.
4. The nature of the work done by most actuaries will not be much different from what it is today.

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The future of retirement – an update

by Anna M. Rappaport

Recent U.S. and world developments have influenced many of the issues discussed at the November 1988 Symposium on the Future of Retirement.

This article revisits and updates some of the issues presented at the symposium, which was sponsored by the Society of Actuaries in cooperation with the American Academy of Actuaries, Conference of Actuaries in Public Practice, Employee Benefits Research Institute and Pension Research Council. The symposium proceedings are available for purchase through the Society.

The symposium examined societal trends that may influence retirement patterns and several retirement scenarios developed by futurists. Fundamental demographic and family issues change gradually and, consequently, have changed little in the past year. These issues will interact with political and business forces to set the stage for work and retirement patterns. Several significant political and business developments surfaced in the United States or abroad last year. These are:

- The changing political and social climate in Eastern Europe
- Modifications to Medicare that undo the Medicare Catastrophic Coverage Act passed in 1988
- A Supreme Court decision that reduced the impact of the Age Discrimination in Employment Act (ADEA) on employee benefits plans
- Continued attention to retiree medical issues and the issuance in February 1989 of an exposure draft on retiree medical benefit accounting
- Escalation of regulatory and legislative activity, creating chaos for employee benefits plan sponsors
- Press coverage causing concern about pension issues and benefit security, making them much more visible issues.

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Changing world political scene

During 1989 there were major political changes in the Communist Bloc countries. East Germans were allowed to freely visit West Germany, and the Berlin Wall is disintegrating. Free elections have been called for in East Germany, and major internal changes have developed in Czechoslovakia and Poland. At first glance these developments seem unrelated to retirement in the United States, but they may play a role in what will be. Retirement patterns will be greatly influenced by employer-offered incentives, which, in turn, are partially driven by the labor supply and demand for workers. At present, a great new uncertainty exists about the impact of these changes on the U.S. labor market. Some questions for consideration include:

- Will the changes affect the supply of workers in the United States?
- Will the changes mean that the Eastern nations are also competing to be manufacturing sites, so that new factors enter into plant-location decisions?
- Will the levels of labor cost that can be supported by manufacturing in the United States change?

These areas need to be watched. It is unclear what impact, if any, they will have on work and retirement patterns.

Repeal of Medicare Catastrophic

In fall 1989 Congress repealed the Medicare Catastrophic Coverage Act, enacted in 1988. This law had two elements: additional benefits and financing through higher Part B premiums and a surtax on income tax of the elderly. The result of this repeal will be higher costs for employer plans covering Medicare eligibles and for Medicare supplements sold to individuals. Employers also are likely to be disturbed by this additional evidence of public policy instability, and this change may encourage employers to terminate their retiree benefits plans or to implement cutbacks through design changes.

Medical costs influence some individuals' retirement decisions, and this change could lead some individuals to delay retirement.

Supreme Court decision

Under ADEA as interpreted by the regulatory agencies, companies were not allowed to make age-based distinctions in employee benefits. Guidelines were issued by the Department of Labor, and later the Equal Employment Opportunity Commission set forth rules. The *Betts* case, decided by the Supreme Court in 1989, effectively overturned these guidelines. Congress may enact legislation that would have the effect of reinstating these rules.

Retiree medical benefits

In February 1989 the Financial Accounting Standards Board issued its exposure draft on retiree medical accounting. After public hearings in fall 1989, the Board indicated its intention to proceed with the project and not to adjust the timetable. The impact of the proposed changes will be a major reduction in reported earnings per share. It appears likely that plan sponsors will reduce their benefits and that, as a result, employees will be less secure in retirement. This could delay retirements for some and encourage other retirees to return to work, at least part-time.

The retiree medical benefits issue will be of major importance to employers over the next few years.

Regulatory and legislative confusion

Major changes were required in pension plans by the Tax Reform Act of 1986. Major portions of key regulations have not been issued as of late 1989, and effective extensions of certain implementation dates have been granted through various Internal Revenue Service notices. Many plan sponsors have changed their plans, but others have not; generally there are concern, confusion and dismay among plan sponsors. Section 89, which was included in the Tax Reform Act, was repealed in the fall of 1989, months after its effective date. This chaos and the extraordinary compliance costs associated with continual changes will discourage employers from offering benefits, and they are likely to lead to deteriorating retirement security.

Public focus on retirement security issues

While plan sponsors deal with retirement security issues in a confusing and rapidly changing environment, the public is becoming more aware of the issues. For example, the *Chicago Tribune* recently published a front-page series on retirement-related issues. The first story was headlined, "Retirement security may be an illusion." It said, "As America's population ages, concerns grow about the nation's pension plans." The stories focused on pension plans and retiree medical coverage and on individuals facing economic problems in retirement. Some of the issues raised include pension coverage, cancellation of retiree health benefits, individuals returning to work to get health coverage, absence of cost-of-living increases, plan terminations, etc.

These developments show that change is continuing. The issues raised in "The Future of Retirement" are as important today as in 1988, but as public awareness of them grows, it is increasingly important that they be examined thoughtfully. A review of some key issues indicates that:

1. There is no real change in demographic issues. Baby boomers continue to age, and life spans are still increasing. The proportion of the population at older ages will increase dramatically.
2. Business restructuring also continues. Benefits are often changed

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Seminars in Japan for SOA members

by Harold G. Ingraham, Jr.

This past summer the SOA organized a program of seminars on various topics in several U.S. cities for a touring group of Japanese actuaries, in conjunction with the Institute of Actuaries in Japan (IAJ). In turn, the IAJ recently advised the Society that it would be willing to arrange a number of seminars in Japan in October 1990 for SOA members. The seminars would cover a two-week period and would focus on investment and other financial matters relative to both life insurance and pensions. The IAJ would find lecturers and arrange sightseeing trips as part of the seminar program.

The attending group would be limited to about 25; if more than 25 Society members wish to attend, attendees will be selected by lottery.

If there is sufficient membership interest in pursuing this, the IAJ will need to know soon. If you wish to attend this seminar program in Japan, please let Barbara Choyke in the Society office know by March 15.

Harold G. Ingraham, Jr., a Past President of the SOA, is with Tillinghast/Towers Perrin.

Retirement cont'd

as a part of business restructuring and, in some cases, benefits are provided through an employee stock option plan after restructuring.

3. The trend to early retirement and entitlement of older Americans remains, but concerns about long-term affordability have not been addressed.

4. Increasing recognition is given to the seriousness of retiree medical problems, and companies are working on the issue. There continues to be litigation on matters relating to retiree medical coverage.

5. Public policy on retirement continues to be wrapped up with tax- and deficit-related policy, and it is difficult to deal with financial security issues on their own merits.

6. Pension coverage is dropping, and small businesses are getting out of defined-benefit plans.

7. Defined-contribution usage is increasing somewhat, but it is too early to determine if this trend will continue and if defined-contribution plans will be viewed primarily as a supplement to or substitute for defined-benefit pension coverage.

8. Current Social Security financing is controversial, and there is much concern about the future financial health of Medicare.

Within the profession

The picture for the actuarial profession is not all bleak. Three developments point to the profession's ability to deal with issues raised by these discussions. These are the Society's implementation of a new system for managing research, the publication by the Pension Section of an Economics Statistics summary, and the publication by the American Academy of Actuaries of *Contingencies*. Each of these developments indicates that the profession should be better able to respond to external issues affecting retirement benefits and plans.

These positive signs do not mean we can sit back and relax. As a profession, we need to understand the demographic and public policy issues and play an active role in constructive change. We must not sit on the sidelines and watch the world change.

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Editorial

Actuaries and saving

by Daniel F. Case

Actuaries probably think of their work as the management of risk. Certainly, life insurance, health insurance, and annuities and pensions are vehicles for managing personal risks. Also, the insurance company or employee benefits plan sponsor whom an actuary advises must manage the risks involved in providing those vehicles.

In buying insurance, or in accepting a portion of one's employment compensation in the form of insurance or pension benefits, a person sacrifices immediate consumption to avoid future privation. Actuaries, therefore, help people not only to manage their risks, but also to save instead of consume immediately.

The United States (and, perhaps, Canada too) desperately needs to invest more and consume less. At the end of 1988 the United States was a debtor nation; net foreign assets in the United States were over half a trillion dollars. Personal consumption expenditures in the United States as a percentage of gross national product were higher in the 1980s than in any of the preceding three decades, and net private fixed investment as a percentage of net national product was similarly lowest in the 1980s.

The federal government's own debt is around $3 trillion. The average American's (adult's or child's) share of that debt is about $12,000. The effective share of a relatively affluent American adult or couple, whose taxes help pay interest on the debt, can be many times that $12,000. Although holders of government debt instruments, such as treasury bills, carry them on their balance sheets as assets, those same people or organizations are not counting as liabilities their proportionate share of the national debt. Accordingly, relatively affluent Americans are less wealthy by several tens of thousands of dollars, on the average, than their personal balance sheets indicate. Increases in the national debt each year add to the gap between Americans' apparent and actual wealth.

A recent *Washington Post* article (which was the source of some of the above information) stated: "Eventually, economists say, the United States will have to reverse the patterns of the 1980s... . Reversing course means consuming less and saving more... ."

What role will actuaries play in achieving the needed saving? They will continue to help provide risk-managing programs that involve the sacrifice of immediate consumption. But how do the various forms of risk-managing program compare to one another in terms of the degree of saving they promote?

Whole-life insurance promotes more saving than does term life insurance in the same face amount. Health insurance may promote saving, depending on how it is funded. Pension plans and deferred annuities involve a very high degree of saving during their accumulation period. In the payout period their savings-promotion "score" may depend on what the annuitants would have done with the money if they had received it as a lump sum. (Would they have spent it rapidly and rashly? Score plus. Or would they have invested it and lived mostly or entirely off the income? Score minus.)

Long-term-care insurance, if advance-funded, promotes savings. How about accelerated death benefits? In that the inclusion of such provisions may increase the buying of whole-life insurance, they may promote savings. On the other hand, they may hinder savings in that they pay for healthcare with money that would otherwise have been passed on to a policy beneficiary, instead of with money that has been saved over the years for the exclusive purpose of managing a health risk.

Actuaries perform a valuable service in helping people manage risks. In performing that service they also have a chance to help promote greatly needed saving.